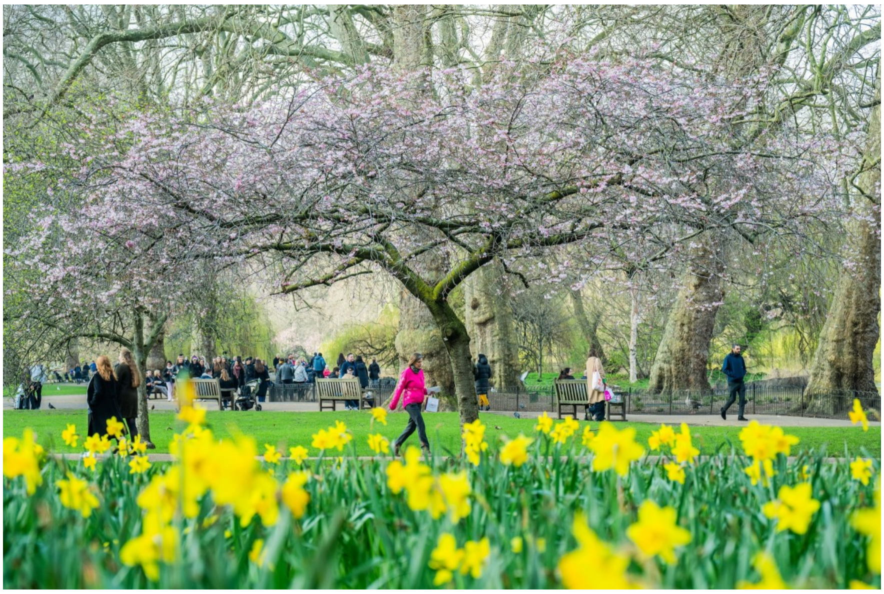
UK economy surges back into growth in the first quarter

Rising real wages, an easing of the recent mortgage squeeze and high economic migration have helped lift the UK economy back into growth



First quarter growth was massive

The UK economy powered out of its technical recession in the first quarter, judging by the initial GDP figures released today. The economy expanded by a whopping 0.6% quarter-on-quarter.

Admittedly the data underlying that number has been pretty volatile. Some of that bounce – and the 0.3% contraction that came before it in the fourth quarter – is linked to a suspiciously large fall in retail activity at the end of last year which was fully recouped in January. Likewise, GDP increased by 0.4% in March alone, and some of the drivers of that (like hospitality and administration) look more like noise than signal.

Some caution should therefore be taken when interpreting these figures, just like the weaker numbers at the end of last year. Still, it tallies with other economic indicators which suggest the economy is entering a period of stronger growth. The purchasing managers' indices are the most obvious example, and these are consistent with continued momentum in the second quarter. Even here though, there is some debate over whether the numbers are being artificially boosted by “residual seasonality” (i.e., not properly adjusting for seasonal trends after the pandemic).

Second quarter growth should be strong too

Volatility aside, there are genuine reasons to think the economy should continue growing more strongly. Real wage growth is positive, and is likely to become even more so as the year goes on. Headline inflation is likely to be below the 2% target from May onwards, with nominal wage growth at 6% and falling more slowly. And as we outline in our latest ING Monthly, we think around two-thirds of the mortgage squeeze is behind us now and will weigh less strongly on growth in the quarters ahead.

The recent higher volumes of economic migration appear to be boosting activity too. GDP per capita grew by a slightly more modest 0.4% in the first quarter, and fell by 0.7% in 2023 as a whole (despite overall GDP rising fractionally by 0.1%).

The bottom line is that the economy is entering a brighter period. The timing of the March bounce provides a nice starting point for the second quarter, where growth could easily come in at 0.4% or 0.5%.

The main unknown is the jobs market. We know both from the job vacancies numbers that the market is cooling, but data reliability issues make it hard to say how far this is translating into higher unemployment.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com